

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Valley Health Team, Inc. (“VHT”) 21890 Colorado Avenue San Joaquin, California Fresno County</p> <p>Project Site: 21890 Colorado Avenue, San Joaquin, California</p> <p>Facility Type: Community Clinic</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: January 31, 2002</p> <p>Resolution Number: HII-111</p>																					
<p>Use of Loan Proceeds: Loan proceeds will be used to construct a new administrative office building, a medical mobile unit building, an ambulance and file storage area, and a heliport.</p>																						
<p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No</p>																						
<p>Financial Overview: VHT is a financially stable organization with a positive trend in revenue and profits. The balance sheet reflects continued growth of net assets and the ability to manage the increased loan obligations.</p>																						
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																						
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Valley Health Team, Inc. in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions.</p>																						

STAFF SUMMARY AND RECOMMENDATION

Valley Health Team, Inc.

January 31, 2002
Resolution Number: HII-111

- I. PURPOSE OF FINANCING:** VHT is the recipient of two grants totaling \$500,000 through the Cedillo-Alarcón Community Clinic Investment Act of 2000. One grant is for the Kerman Health Center and the other grant is for the San Joaquin Health Center (SJHC) in the amount of \$250,000 each.

This proposed HELP II loan request will be used in conjunction with the grant funds for the SJHC project. Loan proceeds will finance the construction of new administrative offices on undeveloped property at the SJHC site currently owned by VHT. Presently, these offices are housed inside the SJHC. Relocating these offices to a separate building provides approximately 2,700 additional square feet to the clinic for patient services as originally intended.

Construction.....\$684,000

The proposed HELP II loan will fund the construction of a new office building, a medical mobile unit building, an ambulance and file storage area, and a heliport. The new office building will be approximately 4,420 square feet with a porch (80 square feet) and courtyard (680 square feet) and includes a parking lot and landscaping. It will house the administrative and financial billing services.

The medical mobile unit building will be approximately 2,400 square feet. It will include a restroom and a kitchenette with refrigerator and microwave. The ambulance area will be approximately 200 square feet and the file storage area will be approximately 400 square feet. A 900 square feet heliport will be constructed with a sidewalk to the parking lot. The heliport will provide emergency access to this rural location.

The estimated value of the new office building is \$442,000, producing a 90% loan to value ratio based on the \$400,000 proposed HELP II loan. This building will secure the proposed loan.

Financing Costs 7,000

Authority Closing Fee..... 5,000
Estimated Closing Costs 2,000

Total.....\$691,000

Financing structure:

- 15-year loan term, fully amortized.
- 180 equal monthly payments of approximately \$2,762 (yearly payments of about \$33,144).
- Total interest payments of approximately \$97,219.
- First Deed of Trust on new building and property to be constructed on Lots 19, 20, and 21 at 21890 Colorado Avenue, subject to Cal-Mortgage Insurance subordination on these lots.
- Must not exceed 95% loan to value ratio.
- A subordinate lien on corporate gross revenues; second to Cal-Mortgage Insurance
- Staff verification of Guaranteed Maximum Price Construction Contract is in place.
- Staff verification of receipt of all permits necessary to begin construction.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

VALLEY HEALTH TEAM, INC.

Statement of Activities

(Unrestricted)

	<u>Four Months</u>	<u>For the Year Ended June 30,</u>		
	<u>Ending October 31,</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>2001</u>			
	<u>(Unaudited)</u>			
Revenues:				
Net Patient Revenue	\$ 900,491	\$ 2,494,009	\$ 1,809,322	\$ 1,843,118
Grant Revenue	347,795	996,140	1,155,314	481,883
Rent Income	-	5,600	26,900	51,900
Gain on Disposal of Property	-	-	85,152	(1,483)
Other Operating Income	11,444	18,112	54,158	20,054
Total revenues	<u>1,259,730</u>	<u>3,513,861</u>	<u>3,130,846</u>	<u>2,395,472</u>
Expenses:				
Salaries and Wages	654,898	1,635,024	1,462,985	1,203,208
Employee Benefits	77,813	266,137	215,339	171,566
Medical, dental and laboratory consulting fees	40,000	110,544	91,192	45,579
Accounting, legal and MIS consulting fees	20,400	33,407	22,807	25,082
Medical and office supplies	95,108	207,681	193,355	162,477
Repairs and maintenance	-	61,131	64,099	49,626
Building and equipment rent	93,279	91,450	87,727	79,171
Utilities and telephone	23,455	85,254	70,403	58,248
Insurance	6,774	17,065	10,263	19,012
Travel, CME and other education	31,049	35,249	37,907	26,214
Interest	25,000	75,479	74,763	78,441
Depreciation and amortization	60,000	176,179	109,849	95,737
Provision for bad debts	-	222,872	79,693	120,418
Other	15,465	79,367	109,647	147,572
Total Expenses	<u>1,143,241</u>	<u>3,096,839</u>	<u>2,630,029</u>	<u>2,282,351</u>
Increase in unrestricted net assets	116,489	417,022	500,817	113,121
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>1,161,550</u>	<u>744,528</u>	<u>243,711</u>	<u>130,590</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 1,278,039</u>	<u>\$ 1,161,550</u>	<u>\$ 744,528</u>	<u>\$ 243,711</u>

VALLEY HEALTH TEAM, INC.
Statement of Financial Position

	As of October 31,	As of June 30,		
	2001	2001	2000	1999
	(Unaudited)			
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 288,147	\$ 7,079	\$ 5,183	\$ 175,556
Assets limited as to use to meet current obligations	41,955	41,955	42,902	43,314
Patient Accounts Receivable, net	467,928	301,131	177,768	163,036
Grant and other receivables	(32,145)	105,050	212,726	10,207
Estimated third-party payor settlements	216,381	450,000	31,269	-
Inventories	45,247	38,767	20,269	-
Prepaid expenses and other current assets	45,868	45,640	47,413	13,600
Total current assets	1,073,381	989,622	537,530	405,713
Assets limited as to use, less amounts to meet current obligations	92,167	92,167	84,856	84,554
Property, plant and equipment, net	1,122,446	1,150,545	1,298,073	842,914
Investment in partnership	-	-	-	90,257
Bond issuance costs, net of accumulated amortization	-	25,983	27,255	28,527
TOTAL ASSETS	\$ 2,287,994	\$ 2,258,317	\$ 1,947,714	\$ 1,451,965
 LIABILITIES AND NET ASSETS				
Current Liabilities:				
Bank overdraft	\$ -	\$ 14,584	\$ -	\$ -
Accounts payable and other accrued expenses	21,955	49,513	117,311	182,785
Accrued payroll and related liabilities	68,785	69,445	69,843	30,494
Refundable advances from grants	14,430	40,000	45,060	23,840
Current maturities of debt borrowings	-	51,146	47,747	34,381
Total Current Liabilities	105,170	224,688	279,961	271,500
Long-Term Debt (less current portion)	904,785	872,079	923,225	936,754
TOTAL LIABILITIES	1,009,955	1,096,767	1,203,186	1,208,254
 NET ASSETS:				
Unrestricted Net Assets	1,278,039	1,161,550	744,528	243,711
TOTAL LIABILITIES AND NET ASSETS	\$ 2,287,994	\$ 2,258,317	\$ 1,947,714	\$ 1,451,965

Financial Ratios:

	Proforma (1)			
	FYE June 2001			
Debt Service Coverage (x)	2.40	3.27	4.03	1.16
Debt/Unrestricted Net Assets (x)	1.18	0.84	1.48	4.38
Margin (%)		12%	16%	5%
Current Ratio (x)		4.40	1.92	1.49

(1) Recalculates June 2001 audited results to include the impact of this proposed financing as well as the concurrent \$400,000 bank loan for the Kerman Health Center.

Financial Discussion:

VHT is a financially stable organization with a positive trend in revenue and profits.

VHT has exhibited strong revenue growth of nearly 47% from 1999 to 2001 while maintaining level expenses. The revenue growth is primarily attributed to additional grant funding. State and Federal government are the two main sources of VHT's grant funding and are expected to continue at the current level or higher.

Net patient revenue remained stable between 1999 and 2000, and then jumped by a 38% increase in 2001. Demand for services is growing as evidenced by the 18% increase in the number of patient encounters from 1999 to 2001. VHT receives 50% of its patient revenues from Medi-Cal.

Management anticipates revenue growth to continue, due to the extra available space for services in the San Joaquin Health Center created by relocating its administration offices to a new site. The opening of the Valley Optometric Center in 2000 and the Valley Smiles dental unit in March 2001 also contribute to this patient and revenue growth.

The balance sheet reflects continued growth of net assets and the ability to manage the increased loan obligations.

During staff's three-year review period, VHT has accumulated substantial net assets of over \$1.1 million. Beginning in 2000, VHT suffered declining liquidity. However, available cash has since risen significantly due to a \$200,000 Medi-Cal cost settlement deposited in September 2001. VHT's cash balances are affected by the State Medi-Cal reimbursement process, which provides payments based on actual cost of operations for the previous fiscal year. Because VHT's patient load has been increasing each year, VHT has received Medi-Cal cost settlements for the last three years. Effective July 1, 2001, the payment structure has changed to reflect payments in accordance with the Medicare Economic Index rate. Thus, clinics are reimbursed at a set rate for each patient seen, which will eliminate additional settlements or potential overpayments in future years.

VHT has secured a bank loan through United Security Bank for \$400,000 for the property purchase associated with its other project at the Kerman Health Center. This mortgage is not reflected in the 2001 audited financials. Including the new mortgage and the proposed HELP II loan, staff's analysis indicates that VHT will be slightly leveraged as reflected by the proforma debt-to-unrestricted net assets ratio of 1.18x. However, VHT maintains a strong proforma debt service coverage ratio of 2.40x and should be able to manage its increased debt obligations.

III. UTILIZATION STATISTICS:

<u>Type of Service</u>	Fiscal Year Ending June 30,					
	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	Encounters	# of Patients	Encounters	# of Patients	Encounters	# of Patients
Medicare	2,271	557	1,939	597	2,098	348
Medi-Cal	14,386	4,722	12,383	3,685	10,722	2,221
CHDP	2,556	1,770	2,359	1,265	1,909	811
EAPC	1,694	716	2,445	573	774	221
Other Programs	2,556	1,244	3,977	1,984	3,561	1,434
Self-Pay/Private Insurance	<u>10,446</u>	<u>5,686</u>	<u>8,094</u>	<u>4,207</u>	<u>9,588</u>	<u>4,209</u>
Total Visits	33,909	14,695	31,197	12,311	28,652	9,244

IV. ORGANIZATION:

Background: Valley Health Team, Inc. is a California private, not-for-profit corporation with over 25 years of experience in providing comprehensive services to the rural communities of western Fresno County and the outlying rural areas. These areas are primarily dominated by agriculture and agricultural related interests.

VHT currently operates four facilities, The San Joaquin Health Center (SJHC), The Kerman Health Center, Valley Optometric Center, and the Valley Smiles mobile dental unit:

- SJHC was established in 1973, through the collaborative efforts of leading citizens from the City of San Joaquin and outlying areas, who were concerned about the lack of primary care in the area. As a result, a 8,500 square foot state-of-the-art facility was built in 1992 with a full service medical clinic, complete x-ray and laboratory, and a dental clinic.
- The Kerman Health Center was established in April 1997 through the acquisition of a local providers' practice, thus allowing VHT to expand its medical services into the city of Kerman.
- In March 2000, Valley Optometric Center opened its doors to the community, making optometry services accessible to many individuals who could not afford this type of care previously. VHT accepts most vision insurance plans and offers sliding fee scale services to its patients as well. VHT was awarded a three-year grant for the set-up, implementation and support of this new service site.
- The Valley Smiles mobile dental unit began providing services throughout western Fresno County communities in March 2001.

Licenses: VHT is licensed as a rural health community clinic with the Department of Health Services.

Competition: VHT is the only provider in its area that provides complete on-site services to its patients including full laboratory, radiology, pharmacy, and ancillary services. In addition, it offers dental and optometry services to all patients. There are three other providers within 25 miles: Vineyard Family Health, United Health Center, and Hari Jacob, DDS. However, each of these providers offers limited services.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/01</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Local Medical Facilities Financing Authority	\$1,025,000	\$870,000 *	\$870,000
Note payable to an individual (final payment due 04/01/02)	60,000	19,416	19,416
Minor capital lease obligations		33,809	33,809
Proposed:			
CHFFA HELP II Loan, 2002		N/A	400,000
United Security Bank Loan, 2002		N/A	400,000
TOTAL DEBT		<u>\$923,225</u>	<u>\$1,723,225</u>

* Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

The annual savings resulting from this proposed financing when compared to a conventional loan at 8.25% totals approximately \$13,400, or \$201,000 over the term of the loan. This savings combined with the Cedillo-Alarcón grant funding will contribute to VHT’s long-term viability and will be passed through to its clients by improving the direct delivery of services to patients and the general public. The new construction and relocation of the administrative offices will provide nearly 2,700 square feet of additional space for patient services and case management in a more private and confidential setting.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Valley Health Team, Inc. in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions.